The Mises Review

VOLUME 7 NUMBER 3 FALL 2001

A God Before Thee

Making Patriots

WALTER BERNS
UNIVERSITY OF CHICAGO PRESS, 2001
XIV + 150 PGS.

Professor Berns has written a book capable of great harm. Not content with the world's major faiths, he proposes to establish a "civil religion" in the guise of patriotism. Those inclined to continue the old ways, he hastens to assure us, need not fear persecution. They must, of course, stay out of the path of the state, guided exclusively by the New Revelation; if they do not, they will be swept away.

What glorious promise can justify so drastic a policy? If faith must bow before the new power, must not Berns bedeck his new state in shining raiment? Otherwise, why would those already committed to a faith of their own be so much as tempted by what Berns has to offer? Here our author manifests genuine originality.

The main benefit that accrues to citizens of his state is that the civil religion gives them a cause to

THE TRUTH ABOUT THE "GOOD WAR"
THOMAS FLEMING
The New Dealers' War: Franklin D. Roosevelt and the War Within World War II 5

BARRY'S WAR
RICK PERLSTEIN
Before the Storm: Barry Goldwater and the Unmaking of the American Consensus 9

A MASTERFUL TREATISE
GEORGE REISMAN
Capitalism: A Treatise on Economics 14

DOES LIBERALISM LEAD TO ABSOLUTISM?
A.J. CONYERS
The Long Truce: How Toleration Made the World Safe for Power and Profit 19

SOWELL AT HIS BEST
THOMAS SOWELL
Basic Economics: A Citizen's Guide to the Economy 24

A Quarterly Review of Books, by David Gordon

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

which they can sacrifice their lives. Lacking the new truth, people might—what a thought!—pursue their own interests. Though commerce has its place in the Bernsian state, it must be firmly subordinated to sacrifice. *Dulce et decorum est pro patria mori.*

I have so far omitted the most surprising part of Berns's construction: As he sees it, he has not devised a dystopia out of an overactive imagination; rather, he has accurately described the United States as her Founding Fathers intended her to be. Abraham Lincoln, the great poet of our national glory, brought to perfection the vision that has captured Berns. Since that time, Americans have lapsed; we stand in danger of neglect of our duty to sacrifice for the state.

And the entire world beckons us Bernsians. "Ours is not a parochial patriotism; precisely because it comprises an attachment to principles that are universal, we cannot be indifferent to the welfare of others. To be indifferent, especially to the rights of others, would be un-American" (p. 8). The prospect of many future patriotic deaths will inspire us as nothing else can.

You will, I fear, suspect me of caricature. Surely, Professor Berns, a distinguished constitutional scholar, cannot be quite the worshipper of Moloch that I have made him out to be. But, as always, I state the simple truth. Our author locates a problem with overemphasis on Lockean rights to life, liberty, and property. No doubt, these have their proper place, and it is not a small one. But "patriotism means love of country and implies a readiness to sacrifice for it, to fight for it, perhaps even to give one's life for it. But, aside from the legendary Spartans, why should anyone be willing to do this? . . . why should self-interested men believe it in their interest to give their lives for the idea or promise of their country (pp. 131–32)?

The question that interests me differs from the one Professor Berns has just posed. I wish to ask, how can an apparently intelligent and learned man be induced to worship war and death? The first step on Berns's *via dolorosa* is his yearning for classical Athens, where no conflicting loyalties stood between the citizen and his city: "Athenians were enjoined to be lovers of Athens because they were Athens—in a way, by loving their city, they loved themselves—and because, by gaining an empire, Athens provided them with the means by which they gained fame and glory" (p. 16).

By no means does Berns seek to restore the ancient city. Quite the contrary, he recognizes that the "institutions of both Athens and Sparta were

The MISES REVIEW

PUBLISHED BY THE LUDWIG VON MISES INSTITUTE

Copyright © 2001 by the Ludwig von Mises Institute, 518 West Magnolia Avenue, Auburn, Ala. 36832-4528, (334) 321-2100, fax (334) 321-2119, info@mises.org, www.mises.org. *The Mises Review* subscription is $16.00 U.S. ($25 international) for four issues. All rights reserved. Written permission must be secured from the publisher to use or reproduce any part of *The Mises Review*, except for brief quotations in reviews or articles. The reviewer may be contacted at dgordon@mises.org.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ordered with a view to war, and, precisely for this reason, neither Athens nor Sparta could, or can, provide a model for America" (p. 17). Since the rise of Christianity, allegiance no longer can be undivided. The soul of the religious believer does not belong exclusively to the political community, and the great mistake of the French Revolution was its futile attempt to uproot the church and restore the ancient ways. The founders of the American Republic avoided this trap.

So much for religion that extends beyond devotion to the state.

So far, so good. But Berns now proceeds to precisely the wrong question. Given that Christianity cannot be eliminated, how can as much as possible of the unity of the ancient city be restored? His answer—and it is not a bad one, given his premise—is that religion must be rigidly confined to the private sphere. In that way, the state may proceed toward its great tasks, unhindered by the scruples of believers. Though believers may practice their faith unmolested, they must realize that private conscience must always bow before the law.

Our author makes entirely clear that, on this matter, he is thoroughgoing Hobbesian: "with the free exercise of one's religion comes the requirement to obey the law regardless of one's religious beliefs. . . . Whether a law is just or unjust is a judgment that belongs to no 'private man,' however pious or learned, or, as we say today, sincere he may be. This means that we are first of all citizens, and only secondarily Christians, Jews, Muslims, or any other religious persuasion" (p. 31). Thus, if your religion forbids you to fight, Berns would grant you no right to avoid military service. It may be a prudent policy for the government to make room for conscientious objectors, so long as they number but few. But their status is a privilege, and Berns does not hide his dismay with the Supreme Court for making "the exception the rule for anyone willing to invoke it" (p. 38).

So much for religion—or, rather, so much for religion that extends beyond devotion to the state. What is to replace it, as an object of popular devotion? We cannot, of course, rely on so egotistic a notion as natural rights; instead, we need a national poet around whose work the emotions of the people can concentrate. Fortunately, one is at hand: Abraham Lincoln. "As . . . Shakespeare was, or is, to the English (and Robert Burns to the Scots, Gabriele D'Annunzio to the Italians, and Homer to the Greeks) so Lincoln is to us; he is our spokesman,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

our poet" (pp. 99–100). I am not sure why Berns includes D'Annunzio; though he was a fervent nationalist, his poetry and novels deal principally with love and nature, not political themes.

Lincoln gives Berns exactly what he wants. His winged words, especially the Gettysburg Address and the second inaugural address, remind all Americans "that freedom is more than being left alone, that there is a price to be paid for it" (p. 98). The great bloodletting that took place during Lincoln's Crusade was an essential means to bond all Americans together in love.

Our author makes parody impossible. He solemnly informs us that Lincoln bore no hatred or even anger for the people of the South. Though Lincoln was determined to fight the war to the end, "he never looked upon the Confederates as enemies" (p. 96). In support of his surprising claim, Berns seems, incredibly, to contend that Lincoln intended in the Gettysburg Address—"the most beautiful speech in the English language" (p. 94)—to include Confederates among the patriots to whom the cemetery was dedicated. I say "seems," because our author merely asks, rhetorically, whether Southerners were included; he does not say positively that it was "Lincoln's larger purpose to include Confederate soldiers" (p. 94). But this is clearly what he intends.

To give Professor Berns credit, he does come to his senses at one point. He remarks: "Now, obviously, when he [Lincoln] referred to those who had given their lives at Gettysburg 'that that nation might live,' he could not have meant to include the Confederates who had given their lives that that nation might die" (p. 118). Exactly so. But does this outbreak of sanity lead Berns to revise his claim that Lincoln was suffused with love for the South? Of course not; though the words

CALENDAR

THE PHILOSOPHY OF A
FREE SOCIETY CONFERENCE
(WITH SCHLARBAUM PRIZE 2001
AND MISES CAMPUS DEDICATION)
September 28–29, 2001

AUSTRIAN SCHOLARS CONFERENCE 8
March 15–16, 2002

HISTORY OF LIBERTY
May 26–31, 2002

HUMAN ACTION CONFERENCE
June 2–8, 2002

ROTHBARD GRADUATE SEMINAR:
ETHICS OF LIBERTY
July 28–August 2, 2002

MISES UNIVERSITY 2002
August 4–10, 2002

20th ANNIVERSARY AND
SCHLARBAUM PRIZE
October 18–19, 2002

For information contact
The Mises Institute
334-321-2100
email: pat@mises.org
web: www.mises.org

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

quoted are not addressed to Southerners, they are the audience of the rest of the speech. Their "freely given consent" (p. 118, emphasis in original) was needed to continue cementing the Union together.

One cannot help but ask: If Lincoln loved his Southern countrymen so much, why did he follow a policy that killed so many of them? The hundreds of thousands of dead and maimed casualties of Lincoln's War are hardly, to the untutored eye, much evidence of love. As Berns makes clear, though, when we deal with Lincoln, we enter the realm of faith in which we can only see through a glass darkly. No ordinary mortal, Lincoln was, "as one historian of the presidency has said, (not irreverently[!]), 'the martyred Christ of democracy's passion play'" (p. 100). The pseudo-religious cult of the dead that Berns invokes throughout this misbegotten book is not genuine American patriotism; rather, it recalls the cult of the dead characteristic of European fascism.

Berns's book is no laughing matter, but at one point one cannot suppress a smile.

Berns's book is no laughing matter, but at one point one cannot suppress a smile. Our author is greatly exercised by a line on the Marine Corps Memorial in Washington. A list of the wars that have involved the Marine Corps includes "The War Between the States." An "unreconstructed southerner," Berns tells us, must be responsible (p. 95). ✦

The Truth About the "Good War"

The New Dealers' War: Franklin D. Roosevelt and the War Within World War II

Thomas Fleming
Basic Books, 2001
xii + 628 pgs.

Thomas Fleming has done a great deal to strengthen a standard revisionist contention about America's entry into World War II. Historians opposed to Roosevelt's interventionist diplomacy, such as Harry Elmer Barnes and Charles Callan Tansill, have suggested the following argument: Roosevelt, gripped by strong hostility toward Germany, wished ardently to enter the war on the side of the British. But Hitler had no desire to accommodate the American president, and he instructed

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

his navy to avoid hostile incidents with American ships. There would be no repetition of the *Lusitania* disaster, if he could avoid it.

What was Roosevelt to do? He knew that he could never ram through Congress a declaration of war against Germany, in the absence of German moves against the United States. Most Americans, however hostile to the Third Reich, opposed entry into the European War. According to the revisionists, this situation did not prove too much for the ingenuity of the wily Roosevelt. Japan and Germany were allies; and if Roosevelt could provoke Japan into attacking the United States, was not Germany bound to enter as well? Thwarted by isolationist sentiment for a direct blow against Germany, the president could enter the war through the Japanese "back door." Fleming notes that, after Pearl Harbor, this famous phrase was not long in coming to characterize Roosevelt's strategy. General Robert Wood, a founder of the America First Committee, told Charles Lindbergh immediately after learning of the Japanese attack, "he [Roosevelt] got us in through the back door" (p. 40).

In the revisionist view, Roosevelt implemented his plan by provoking Japanese hostility, most notably through an oil embargo that placed Japan in an untenable economic situation. After Roosevelt rejected all Japanese peace feelers, Japan made ready to attack. Of this, Roosevelt was well aware, since the United States was able to decode Japanese military and diplomatic messages. Although information in the days before Pearl Harbor indicated an imminent Japanese assault, Roosevelt refused to warn the Army and Navy commanders at the base. He wanted an attack; otherwise, his back-door ruse would fail.

To this daring argument, opponents of revisionism have posed two strong objections: First, was Roosevelt a Japanese agent? If not, surely he would not have placed the United States in a potentially losing situation. But did not the back-door strategy threaten exactly that outcome? A refusal to warn the naval commander of an impending Japanese attack risked major damage to the U.S. Pacific Fleet. Second, suppose Roosevelt's alleged plan "worked," in the sense that the Japanese attacked without inflicting unacceptably severe damage. Why would this get America into war with Germany? What if Germany refused Roosevelt's bait and did not declare war? Then Roosevelt would be no nearer to his goal of American entry into the European War, and he would face a full-scale war with a powerful foe.

Most Americans, however hostile to the Third Reich, opposed entry into the European War.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Mr. Fleming offers persuasive responses to these objections. "If an attack on Pearl Harbor was a surprise only in the tactical sense, what lay behind FDR's decision to base the fleet there? . . . A good part of the answer lies in the race-based contempt for the Japanese that too many Americans shared with their British allies. The Anglo-Saxons were convinced that the Japanese could neither shoot, sail, or fly with the skill of Westerners. . . . This arrogant mindset explains why Roosevelt expected to 'get hit but not hurt' wherever the Japanese attacked—including Pearl Harbor" (pp. 44–45).[1]

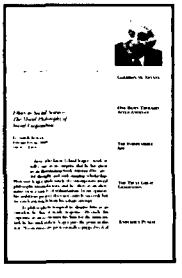
If our author has turned aside the first objection, his case survives only to confront a more formidable obstacle. Once more, what if Germany did not respond with a declaration of war? Here, Mr. Fleming responds with his boldest stroke. On December 4, 1941, the *Chicago Tribune*, under the byline of Chesly Manly, published the Rainbow Five War Plan, a detailed agenda for an American invasion of Europe, in cooperation with the British. Most historians have seen publication of this plan as a grievous blow to the president. Did not the exposé show Roosevelt's constant claims that he sought no war in Europe to be blatant lies?

Accordingly, most writers have wondered what dissident isolationist privy to administration plans leaked the documents. Suspicion has sometimes centered on the plan's author, Major (later General) Albert Wedemeyer, a firm supporter of America First, but he satisfied investigators that he was not involved. Mr. Fleming, amazingly, suggests that Roosevelt himself orchestrated the leak.

By doing so, he ensured the success of his scheme. The publication of the plan convinced Hitler that war with the United States was inevitable; and in his speech to the Reichstag declaring war, he emphasized the *Tribune* story. "His final decision, Hitler said, had been forced on him by American newspapers, which a week before had

[1] Fleming does not commit himself to the thesis of Barnes and Tansill that Roosevelt knew specifically that the Japanese intended to attack Pearl Harbor. He does maintain that basing the Pacific Fleet at Pearl Harbor, in the face of a warning of danger from Admiral Richardson, suggests that Roosevelt wished to challenge the Japanese. Fleming thinks that in the days around November 27, when war warnings were sent to American commands in the Pacific, Roosevelt thought hostilities would most likely open in the Philippines. His message to General MacArthur, the American Army commander, stated, "If hostilities cannot, repeat cannot, be avoided, the United States desires that Japan commit the first overt act" (p. 23).

Subscription to *The Mises Review* is $16.00 U.S. ($25.00 Intl.) for four issues.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Fleming's explanation of the leak of the Rainbow plan is the most original element of his book. But the volume contains much else.

revealed 'a plan prepared by President Roosevelt . . . according to which his intention was to attack Germany in 1943 with all the resources of the United States. Thus our patience has come to the breaking point'" (p. 35).

Publication of the plan served Roosevelt's interests, but it does not at once follow from this that he bore responsibility for the leak. Our author's case, however, is not yet complete. He notes that, although some evidence suggested that General Henry Arnold leaked the plan, the assistant director of the FBI, Louis Nichols, stated, "When we got to Arnold, we quit" (p. 28). Fleming takes this as an indication that the real source outranked the general; is not the president the most likely candidate? Further, General Wedemeyer, in his later years, inclined to hold Roosevelt responsible.

Our author's case, though based on a convergence of several lines of evidence, seems to me no more than an intriguing possibility. But he is entirely correct to cast aside the antirevisionist argument suggested earlier. True enough, Germany might not have declared war. But what had Roosevelt to lose? Given the Axis Pact, he might have been able to force an American declaration of war through Congress. And even if he could not, how would the chances of entering the European war be weakened by a fight with Japan?

I have spent a great deal of time on the leak of the Rainbow plan, since Fleming's explanation of it is the most original element of his book. But the volume contains much else. For one thing, it includes a devastating criticism of Roosevelt's unconditional surrender policy. Roosevelt's demand, announced at the Casablanca Conference in January 1943, played into the hands of German propaganda. "Dr. Joseph Goebbels, Hitler's propaganda chief, was in a state of euphoria. He called Roosevelt's announcement 'world-historical tomfoolery of the first order.' To one of his colleagues, he admitted: 'I should never have been able to think up so rousing a slogan. If our Western enemies tell us, we won't deal with you, our only aim is to destroy you . . . how can any German, whether he likes it or not, do anything but fight on with all his strength'" (p. 176)?

Critics might claim that our author's argument overrates the capacity of the German resistance to Hitler, but I think he stands on firm ground. However small the chances of an overthrow of Hitler, what had Roosevelt to gain by unconditional surrender? Had there been no opposition at all to Hitler within Germany, the policy still

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

would have been a mistake, for the reason stated by Goebbels.

Further, if the Germans did surrender, they could anticipate an American policy more befitting Genghis Khan than the civilized leader of a modern state, a fact of which Goebbels was not slow to make use. Roosevelt inclined toward the plan of his Treasury secretary, Henry Morgenthau, Jr., for dealing with postwar Germany. The Morgenthau Plan aimed to strip Germany of her industrial capacity, with dire consequences for the German people. "It proposed . . . destroying all the industry in the Ruhr and Saar basins

Roosevelt schemed to get the United States into a war that most people did not want.

and turning Central Europe and the German people into agriculturalists. At one point Communist agent [Harry Dexter] White . . . feared they were going to extremes. He warned Morgenthau that the idea was politically risky; it would reduce perhaps 20 million people to starvation. 'I don't care what happens to the population,' Morgenthau said" (pp. 428–29). Fortunately, the accession of Harry Truman to the presidency brought about the plan's demise.

I have had to leave much in this rich book unmentioned—for example, Fleming's depiction of the conflicts between extreme New Dealers such as Henry Wallace and their opponents. But I have endeavored to sketch the main lines of our author's indictment of Roosevelt. He schemed to get the United States into a war that most people did not want. Once in it, he pursued a course designed to ensure an unnecessarily long and bloody conflict; and his postwar plans for the defeated enemy threatened widespread catastrophe. Hardly a record worthy of praise, memorials in Washington to the contrary notwithstanding. ✦

BARRY'S WAR

Before the Storm: Barry Goldwater and the Unmaking of the American Consensus

RICK PERLSTEIN
HILL AND WANG, 2001
XVI + 671 PGS.

Barry Goldwater's campaign for the presidency in 1964 decisively influenced American conservatism. At last, a candidate who dared to challenge the prevailing liberal consensus! Mr. Perlstein brings to life those decisive days. (I was a high-school student at the time and can testify to how

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

well our author evokes the atmosphere.)

Goldwater's remarkable act of defiance had for him an unhappy outcome: Lyndon Johnson, a quintessential practitioner of New Deal politics, trounced him in the November 1964 election. Why did Goldwater fail? Was his cause one with at most a minority appeal to the American public? Our author, though decidedly not a Goldwater partisan, thinks otherwise. Ronald Reagan, an ardent supporter of Goldwater during the campaign, won the presidency on a platform that resembled Goldwater's; and the Arizona senator's sharp assault on the welfare state, once dismissed as extremist, is today a commonplace.

Ironically, in foreign policy, Goldwater stood squarely within the liberal consensus, which was itself extreme.

What, then, happened? In part, an inept campaign led to electoral rout, but the major cause lay elsewhere. The Johnson forces skillfully used shock over the Kennedy assassination to fuel a mendacious assault on the supposed right-wing atmosphere of hate that, it was alleged, bore responsibility for President Kennedy's death. Goldwater fell right into the trap set by his leftist foes. Though his domestic policies stood squarely within the American tradition, he accepted the appellation "extremist" that his enemies sought to pin on him.

And in one essential area, the leftist charge was right. Goldwater enthusiastically championed the cold war, and many who might otherwise have been well disposed to him found frightening his apparent haste to bring nuclear weapons into play. Ironically, in foreign policy, Goldwater stood squarely within the liberal consensus, which was itself extreme. Mr. Perlstein shows that his "extremist" nuclear rhetoric merely echoed earlier remarks by Kennedy, Rockefeller, and other stalwarts of the cold war consensus. Had Goldwater returned to the noninterventionist foreign policy of the Old Right, he could have turned the campaign of fear against his accusers.

Goldwater could have avoided difficulties had he followed the policy of Clarence Manion, a longtime conservative activist who organized the first drive to draft Goldwater as the Republican presidential nominee. Among his many endeavors on Goldwater's behalf, Manion commissioned Brent Bozell to write *Conscience of a Conservative*, the widely circulated manifesto of the conservative movement that appeared under Goldwater's name. Manion, for many years dean of the Notre Dame Law School, firmly supported the foreign policy of Washington's *Farewell*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Address. As a young man, he opposed America's entry into World War I, and "[w]hen Roosevelt began making noises for military mobilization in 1940, Manion once again joined the anti-interventionist cause, taking a leadership position in the left-right coalition America First" (p. 7). Manion's close political associate, who aided him in his efforts to draft Goldwater, was none other than General Robert Wood, a founder of America First.

Traditional American foreign policy diametrically opposed what our author terms "consensus, managerial, or pragmatic liberalism: the belief that any problem, once identified, could be settled through disinterested application of managerial expertise" (p. 56). Readers of Murray Rothbard will have little difficulty in seeing consensus liberalism as a continuation of the ideology of the Progressive movement. Nelson Rockefeller, aided by his employee Henry Kissinger, ranked among the foremost consensus liberals of the 1950s.

Goldwater opposed most foreign aid and viewed the United Nations with suspicion.

As regards foreign policy, a managerial liberal would reason in this way: Soviet Russia and its allies threaten the United States. Faced with this danger, we cannot stand idly by. A massive military buildup, stressing nuclear weapons, must be used to support worldwide intervention against the Communist bloc. But anticommunism is not enough. Foreign aid programs must be instituted to cope with poverty, the underlying cause of sympathy for communism.

Noninterventionists saw matters in an entirely different light. They did not ignore the evils of communism, but they refused to accept that the proper way to combat it was to establish a militarized centralized state that imitated Soviet Russia. Quite the contrary, the natural forces of the market would eventually bring about the collapse of communism. Probably the most important "positive" foreign policy step the United States could take would be to refrain from foreign aid to prop up the tottering economies of the Warsaw Pact countries. Exactly as with domestic matters, laissez-faire was the order of the day.

Goldwater to a large extent rejected traditional American foreign policy. (An early indication of this, which our author has surprisingly missed, is that he supported Eisenhower rather than the noninterventionist Robert Taft at the 1952 Republican Convention.) Not all of the foreign policy in *Conscience* was bad. Goldwater opposed most foreign aid and viewed the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

United Nations with suspicion. He questioned the "balance of terror" doctrine common at the time, according to which peace depended on the United States and Soviet Russia each being able to scare the other with the prospect of nuclear holocaust. In this happy state of affairs, it was alleged, each would deter the other from ever using the dread weapons.

Goldwater refused to accept confrontation and violence as a means to ameliorate racial relations.

Goldwater was right to challenge the regnant orthodoxy on these matters. Surely peace depends on the concrete interests at issue among competing nations, rather than on an automatic mechanism whose supporters, *ad absurdum*, viewed it as desirable that the Soviet Union possess a large nuclear arsenal. (Oskar Morgenstern, among many others, advocated precisely this.)

Unfortunately, Goldwater did not move from his defiance of standard nuclear doctrine to a call for a return to traditional diplomacy. Instead, he spoke constantly about the need for a "war of attrition" and denounced "surrender." His frequent reminders of the need to risk death in all-out war were hardly the customary rhetoric of the American right, at least in its pre-William Buckley days. Even Herbert Hoover found it "hard to disagree" with the feeling that Goldwater might get us into war (p. 348). Such inflammatory language, as we shall see, played into the hands of his leftist adversaries, although as Perlstein makes evident, Goldwater did little more here than echo mainstream cold warriors.

On domestic matters, Goldwater went far to justify the confidence that Manion and other rightists reposed in him. His attacks on waste in the welfare state and on labor union violence struck home; these proved very effective issues for him during the campaign. Mr. Perlstein dissents: he appears to question the existence of welfare fraud (p. 132), and he fervently admires Walter Reuther. Concerning the notorious Kohler strike in Wisconsin, our author refers to "violence piling up on both sides" (p. 36). I venture to suggest that had Perlstein paid greater attention to one of his sources, Sylvester Petro's *The Kohler Strike*, he would have realized the serious threat that labor union thugs posed to the free market (p. 526).

Goldwater's stand on an even more controversial issue boded well for his election prospects. He deplored discrimination against blacks; but, in contrast with the civil rights movement of the 1960s, he refused to accept confrontation and violence as a means to ameliorate racial relations. The nonviolence of Martin Luther King *et hoc*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

genus omne was of course a fraud: It aimed to provoke others to violence in the hope that this would advance the civil rights agenda. As incendiarism and looting mounted during the "long, hot summers" of the early '60s, Goldwater's principled stance won him wide support.

The traditional American order, ably championed by the Old Right, favored peace and laissez-faire on both the domestic and foreign fronts. In view of the widespread fears of nuclear war abroad and racial violence at home then prevalent among the American public, would not an Old Right program that aimed to defuse tensions on both fronts have had great appeal? Unfortunately, Goldwater adopted only the domestic part of this program. His foreign policy proposals fomented unease, a fact his adversaries hastened to exploit.

Indeed, foreign affairs were Goldwater's undoing during his race for the presidency. Although he virtually had to be dragged into the presidential campaign by Manion and F. Clifton White, he had, by 1963, outdistanced Nelson Rockefeller as frontrunner for the next year's nomination. But Kennedy's assassination on November 22 at once changed the situation.

The left, without a pause for breath, pounced. Without the slightest evidence, they indicted the right for a "climate of hate" that they claimed caused Kennedy's murder. "A word was repeated again and again, on the streets, before the television cameras, in the newspapers: hate. . . . Extremism had killed Kennedy" (p. 249). Chief Justice Warren, no doubt resentful of the right-wing call for his impeachment, joined in the hue and cry against "fanaticism."

Largely owing to the antihate campaign, Goldwater lost his position as frontrunner; Perlstein ably chronicles the rise and fall of the many aspirants to the top position. These included the ubiquitous Nelson Rockefeller; Henry Cabot Lodge; and the moderates' last hope, Governor William Scranton of Pennsylvania. With the help of careful planning by Clifton White, whom our author portrays as a master of convention politics, Goldwater rebounded, regained his leading position, and won the nomination.

Now the crucial question arose: Would the candidate succeed in overcoming the attempt by the partisans of Lyndon Johnson to depict him as a hater and as an extremist hell-bent on nuclear holocaust? Goldwater did not help matters when, in his speech accepting the party's nomination, he reminded his audience, "extremism in the defense of liberty is no vice . . . and moderation in the pursuit of justice no virtue" (p. 391). The line stemmed from Harry Jaffa, a frequent target in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

these pages; but for once, Jaffa had a point. As a good Aristotelian scholar, he knew well that in the *Nicomachean Ethics*, justice, unlike other virtues, is not a mean between two extremes. Surely, however, the convention was not a fit place to apprise people of this nuance, and Jaffa played into the hands of the scaremongers. Incidentally, in view of the invective Jaffa frequently launches these days against Chief Justice Rehnquist, it is fascinating to learn that the two collaborated on Goldwater's speeches (pp. 424, 461).

Perlstein emphasizes the many tactical errors of those in control of the campaign. Once the nomination had been secured, Goldwater turned from White to the "Arizona Mafia" headed by Denison Kitchel to run the campaign. Our author clearly regrets the shift, as well as the delegation of intellectual leadership to a team headed by William Baroody. But not even the most skilled political operatives could have repelled the leftist assault. Goldwater was his own worst enemy: his bellicose foreign policy might as well have been written to order by his opposition.

Goldwater was his own worst enemy: His bellicose foreign policy might as well have been written by his opposition.

Mr. Perlstein has given us a work remarkable for the scope of its coverage and the depth of its research. I noted a few mistakes: The *Fact* magazine story that smeared Goldwater did not appear in the "first and only issue" (p. 438); Lyndon Johnson was not the first Southerner since Zachary Taylor to become president (p. 252); Arthur Krock appears as "Arthur Crock" (p. 222); and the thesis of Revilo Oliver's "Marxmanship in Dallas" is misstated (p. 290). ✦

A Masterful Treatise

Capitalism: A Treatise on Economics

George Reisman
Jameson Books, 1998
l + 1046 pgs.

Professor Reisman centers his enormous book about a key insight: It is capitalists who run the capitalist system. (He has been greatly influenced by Ayn Rand, and I suspect that his claim is in part inspired by *Atlas Shrugged*.) This insight enables him to bring out a vital aspect of Austrian economics, essential to a grasp of that system of thought.

Our assertion, though, at once seems vulnerable to attack. Far from vindicating Austrian economics, does

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

not Reisman contradict it? He was a student of Mises, for whom he has the greatest admiration; yet he also tells us that he wishes to combine Austrian views with the classical economics of Ricardo and his school. "[B]ecause of the profound influence of the classical economists on my teaching, it would be more appropriate to describe my views as 'Austro-classical' rather than as 'Austrian'" (p. 11, n. 2). Is this combination tenable?

The case that it is not may be put in this way: According to Mises, the consumers in a capitalist economy are sovereign. Their decisions to buy determine what goods will be produced. As Mises never tired of asserting, modern capitalism is a system of mass production for the masses. And the sway of consumer sovereignty is not limited to the goods that consumers purchase themselves. Far from it.

Given the prices of consumer goods, the prices of all other goods in the economy can be determined. As Austrians phrase this, the prices of production goods are imputed to them from the prices of consumer goods.[1] But according to our author, capitalists run the economy; if so, one assumes, they determine at least some important economic magnitudes. Does he not then reject a principal thesis of the Austrians?

We may locate more precisely the apparent contradiction between Reisman's system and Austrian economics. Our author takes pains to inform us "that the demand for *A* is the demand for *A*—that is, that the demand for any concrete good or service is simply and only a demand for that concrete good and service. . . . The plain fact is that in buying a loaf of bread, one buys neither a quantity of flour, nor a quantity of wheat, nor the labor of a baker, nor the labor of a miller . . . nor anything else but a loaf of bread. . . . Well over a century ago John Stuart Mill advanced the essentially similar proposition that 'demand for commodities is not demand for labour'" (p. 683). Can the rejection of Menger's doctrine of imputation be put any clearer?

According to Mises, the consumers in a capitalist economy are sovereign.

I hope that readers will allow me to build suspense by digressing for a moment, before I endeavor to dissolve the apparent contradiction. Professor Reisman holds that to embrace the view he repudiates is to adopt what he terms "a Platonic-Heraclitean view of

[1] In turn, the prices of goods at higher stages of production are determined by the prices of the next lower stage.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the nature of entities" (p. 674, emphasis omitted). If one claims, say, that the price of bread includes the price of flour, then one must hold that bread can be both itself and flour at the same time. But to hold this is to claim that entities are the "creation of the human mind in the form of abstractions which can be put together and taken apart at will to form different entities" (p. 674).

Enough suspense. Our author does not reject consumer sovereignty, and he remains an Austrian in good standing. He explains: "When the Austrian theory of value declares that the value of consumers' goods determines the value of the means of producing them, it is always on the assumption . . . that the relationship between the value of the products and the value of the factors of production can be ignored" (p. 689). More simply put, Reisman readily acknowledges that consumers, by their spending, determine which consumer goods will be produced. Their decisions in turn bring about shifts in spending on factors of production.

Enough suspense. Our author does not reject consumer sovereignty, and he remains an Austrian in good standing.

Our author denies, however, that consumers decide the balance between capital and consumer goods in the economy.

But does Reisman, in fact, remain true to Austrian economics? It might be claimed that he does not. What, according to Austrians, determines the balance between total spending on consumer and capital goods? Clearly, it is the rate of interest. But to say this seems to reintroduce exactly what Reisman wishes to repudiate. Time preference determines the rate of interest; if so, then it appears that consumers, who determine the rate of time preference, do set the balance of spending in the last analysis. And if the consumers do not settle this, who does?

Here, at last, we reach the heart of Reisman's system. He acknowledges that the rate of interest determines the relative shares of capital and consumer goods, but he maintains that this rate depends on the rate of profit, itself determined by the producers' demand for consumption goods. Is this not in effect to say that the time preference rate of businessmen, rather than consumers, principally sets the rate of interest? (I am not sure our author would accept this way of putting his point.) If businessmen have high time-preference rates, the rate of interest will likewise be high; if, on the contrary, they are willing to settle for less consumption, the rate of interest will be low.

Reisman holds this view because, as he sees matters, business spending controls the economy. He wishes to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

show "the enormous role of [business] saving and productive expenditure in the generation of aggregate demand—a role which far exceeds that of consumption expenditure in size and is more fundamental than that of consumption expenditure" (p. 683). Our author takes great pains to work out a new concept, Gross National Revenue, that reflects these realities better than the customary measures of national product.

Our author's difference from the "standard" Austrian position comes to this: On the usual view, time preference determines interest. On Reisman's modified Austrian view, "the connection between the rate of time preference is not direct, but indirect" (p. 743). Time preference determines interest only through its effect on the rate of profit. This "give" in the system permits Reisman to deny the unlimited scope of consumer sovereignty. Reisman thus adopts a "weak" concept of imputation.

For Reisman, prosperity depends mainly on business saving and spending, not the vagaries of consumers.

Even if I am right that Reisman remains within the Austrian ambit, why does all this matter? Our author's innovation permits him to deal a death stroke to one version of Keynesianism. On this view, prosperity largely depends on the level of consumer spending. "[W]ith such an exaggerated view of the role of consumption spending as constituting virtually all spending, there is nothing left for the view of saving except to regard it as hoarding" (p. 683). For Reisman, prosperity depends mainly on business saving and spending, not the vagaries of consumers.

But, one might object, Keynesianism easily makes a comeback. Another variant of that doctrine, perhaps truer to Lord Keynes himself, blames depressions on erratic investment, governed by "animal spirits," and takes swings in consumer spending to be of only secondary significance. What good will it do Reisman, as a defender of capitalism, to ascribe autonomy to capitalists, if their actions are characteristically erratic?

To this our author has a ready response: He maintains that capitalist investment in the free market easily sustains continued growth. In particular, there is no long-term tendency for the rate of return to capital to decline. (His argument for this is long and complex.) If he is right, Keynesianism of this variety fails as well.

I should like to suggest a further advantage of Reisman's innovation,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

one not explicitly stated in the book.[2] The rigid view of imputation that he opposes threatens to undermine Mises's socialist calculation argument. (Our author provides a superb exposition of that argument. He shows that it is a generalization of the standard refutation of price control.) Suppose that spending on consumer goods directly determines all other economic magnitudes. Then, if a socialist economy could establish a set of prices for consumer goods, Mises's problem would dissolve.

Here disaster looms. Mises posed the calculation argument as a difficulty about capital goods; he conceded that a socialist economy could set prices for consumer goods. But this concession, combined with extreme imputationism, "solves" the calculation problem for socialism. (This, incidentally, was Schumpeter's reason for dismissing Mises's argument.) Unless one adopts Reisman's view, or devises another alternative to the imputationist view, the socialist calculation argument must be abandoned.

Mises, with characteristic insight, fully grasped this issue. In a passage of *Human Action* which has not received the attention it deserves, Mises refers to "Professor Schumpeter's dictum according to which consumers in evaluating consumers' goods 'ipso facto also evaluate the means of production which enter into the production of these goods.' It is hardly possible to construe the market process in a more erroneous way" (*Human Action*, Scholar's Edition, p. 354).

Our author shows himself ever alert to defend capitalism against objection, and I found especially impressive his demolition of Marx's argument that profit derives from exploiting labor. "According to Marx, the capitalist expends a sum of money M in buying materials and machinery and in paying wages. A commodity C is produced, which is then sold for a larger sum of money, M', than was expended in making it. The difference between the money the capitalist expends and the money he receives for his product is his profit or surplus value" (p. 478).

Our author shows himself ever alert to defend capitalism against objection.

Against Marx's argument, Reisman deploys an argument that I have not previously encountered. He contends that Marx's theory rests on a fundamental mistake. If, under capitalism, profits are deducted from wages, then wages must be the original source of

[2] I am indebted here to correspondence with Professor Reisman, though he bears no responsibility for what I say.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Professor Reisman has written one of the outstanding treatises of modern economics.

income. But, our author contends, this is false: "in the precapitalist economy, only workers receive incomes, and there are no capitalists and no money capital. But all the incomes that the workers receive are profits and none are wages" (p. 479). Profits come first, and the prior existence of wages does not explain them. A Marxist might respond, I suppose, by claiming that even if precapitalist income is entirely profit, matters alter once capitalism is in place. But this seems an unpromising line to pursue.

The book contains what seems to me a few questionable points. The brief remarks on the history of economic thought neglect the contributions of writers before Adam Smith, most notably the Spanish scholastics (p. 1); "Louis Bodin" should be "Jean Bodin" (p. 6); Lynn White was not "the leading environmentalist theologian" but a historian of medieval technology (p. 114); and Murray Rothbard's views about the cold war did not ever make him "an admirer of the Soviet Union" (p. l, n. 15, emphasis removed).

Nevertheless, Professor Reisman has written one of the outstanding treatises of modern economics. It is immensely long; its double-columned pages make it, in my estimation, twice the length of *Human Action*. Tennyson's line, "But I go on forever," will, I fear, sometimes come to the reader's mind; but time devoted to this masterly work is well spent. ✦

Does Liberalism Lead to Absolutism?

The Long Truce: How Toleration Made the World Safe for Power and Profit

A.J. Conyers
Spence Publishing Company, 2001
xiv + 266 pgs. [1]

A supporter of the absolute state might defend his cause with many slogans, but freedom of religious opinion, one would think, could hardly find a place among them. Professor Conyers disagrees: he maintains that in the history of modern Europe, toleration has had a distinctly illiberal outcome.

[1] I am grateful to Donald Livingston for calling this book to my attention.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

I was at first skeptical of our author's arresting contention, but another book has given me pause. Walter Berns's *Making Patriots,* reviewed first in this issue, perfectly illustrates Conyers's point. Berns defends religious freedom, but believers had better grasp their servile place within society. Woe to the believer whose conscience tells him a law duly enacted by the state is unjust! He must, Berns holds, put away his private misgivings and obey the state's dictates. By confining religion purely to the private sphere, Berns renders nugatory its impact on the social order.

If Conyers is right, Berns is no accident. The substance of our author's argument is this: Kings who, starting in the sixteenth century, wished to centralize power faced formidable obstacles. In the Middle Ages, they found themselves everywhere hemmed in by competing centers of power and local customs. "The habitual contours of society—one might say its natural arrangement within the ebb and flow of informal authority—is a function of the family, the village, the locale, the trade association, and of religion. These sometimes smaller and always subtler arrangements of customary authority were always potentially in competition with the comprehensive political arrangements of the modern state. They were seen as natural obstacles in the project of erecting large-scale central administration, remote from local arrangements" (pp. 50–51).

In the Middle Ages, kings found themselves everywhere hemmed in by competing centers of power and local customs.

In particular, aspiring absolutists had to do something about religion. The Roman Catholic Church, a formidable international power, blocked the way of any king who claimed total authority. And the Reformation churches, though often instruments of national consolidation, by no means always aided the growth of central authority. All the major Christian churches taught that a body of divine or natural law limited the government's power.

Given this structure of society, the course of action for a potential absolutist was apparent: He must endeavor to reduce the power of all institutions that limit his power, the church foremost among them. If individuals had to confront the ruler without the benefit of intermediate institutions, they would find resistance to his will a difficult if not impossible task.

But this bold agenda could not be achieved directly. People often adhered to their faiths with tenacious loyalty, and any attempt to abolish the church would necessarily prove futile. More plausibly, the king might attempt to construct a national church to serve as his pliant tool. But this scheme faced some formidable difficulties of its own.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

How was the king to deal with those who dissented from the official church? To allow them to practice their faith unhindered might lead to a "state within the state." Religious dissenters, like the Huguenots in France, exercised political authority in certain areas in virtual independence of royal authority. And if the king tried to compel dissenters to join his church, outright religious war threatened.

The absolutist king then faced a task almost impossible to fulfill. To hold unlimited power, he must control the church; but it appeared that he could not achieve this goal without bringing about consequences that from his point of view were undesirable. Our author suggests that a different tactic proved useful. If religion could be reduced entirely to private belief, would not the absolute monarch gain everything he wanted? Since each person was free to believe as he wished, dissenters need no longer fear persecution. But because the state divorced religion from public affairs, the absolutist king could proceed without hindrance from the church.

Professor Conyers's thesis suffers from a glaring weakness that I fear is fatal.

Professor Conyers's thesis suffers from a glaring weakness that I fear is fatal. He has identified with perfect accuracy a real issue: Institutions that shield individuals from powerful centralized states have lost much of their authority. No longer can the church bring a ruler to his knees in repentance. But it does not follow from these undoubted facts that theorists of religious toleration aimed to bring about an absolute state and an impotent church. Conyers fails to show that the major writers he discusses favored toleration for these purposes. (Hobbes favored absolutism but not toleration.)

Conyers's treatment of the greatest of the theorists of tolerance, John Locke, provides an excellent test case for his thesis. If he wants to claim that Locke's policy of religious tolerance promoted absolutism, he confronts a formidable obstacle: Locke defended individual rights and a strictly limited state. How, then, can one possibly argue that Locke's defense of toleration aimed to promote state power?

Our author fully grasps the difficulty, and one tactic, if successful, would resolve it. In the 1660s, Locke wrote favorably of absolutism; perhaps his early work provides the key to the real meaning of his later and more famous books. In the *Two Tracts on Government* (1660–1662), "it becomes clear that Locke was an 'authoritarian' rather than a 'liberal' in his view of public order. These early tracts were written to uphold the authority of the 'supreme magistrate' over matters of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

religion. . . . Toleration is hardly in view in this writing, and when he raises the issue in 1667, in *An Essay on Toleration*, he clearly takes a position that is at variance with his famous "Letter Concerning Toleration," two decades later" (p. 125). In the earlier essay, he rejects liberty of conscience.

To claim that Locke's liberal works have a hidden authoritarian agenda helps Conyers's thesis not a whit.

Leo Strauss and his many followers argue that Locke never really abandoned his early absolutism; he only disguised it. Conyers cites in this connection Robert Kraynak, a follower of Strauss: "Kraynak finds it remarkable that they [non-Straussian scholars] do not consider the possibility that there is a deeper, underlying principle to which Locke is perfectly loyal: 'They have not considered the possibility that absolutism is the original form of liberalism'" (pp. 125–26).

One may readily grant Kraynak's premise that his contention should be examined; but having done so, why should we accept it? Why is it naive to think that Locke, having discovered good arguments for individual rights, abandoned his youthful and derivative Hobbesian proclivities? Straussians themselves favor rule by a philosophical elite, hidden beneath the form of liberalism. To them, classical liberalism is obvious nonsense, if taken at face value. No significant thinker can, then, genuinely hold this view; and this is why they dismiss as naive the standard interpretation of Locke. If Locke in his later writings meant what he appears to be saying, Conyers cannot use him to show that liberal toleration aimed to promote absolutism.

Conyers's next step appears obvious; he must show that the Straussian reading fits the texts better than the "face-value" position. Oddly, he does not do so. Instead, he lists four possible interpretations of Locke, including the two just mentioned (pp. 135–36), and two that stress Locke's complexity and confusion. He offers no grounds for choosing between the conflicting views. Does he not realize that his failure undermines his argument? To claim, absent any evidence, that Locke's liberal works have a hidden authoritarian agenda helps Conyers's thesis not a whit.

But our author goes on to deploy a somewhat better argument. Locke, he contends, suffered from a "bipolar disorder." "In Locke's *Second Treatise of Civil Government* . . . he writes consistently as if the relationship between the individual and the commonwealth were the only relationships that mattered so far as political theory and policy are concerned. He takes note of smaller associations, but only as they figure into the evolution of the grand

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

arrangement between the individual and the state" (p. 139). He contrasts Locke unfavorably with Althusius, who was fully alive to the importance of families and associations.

But from the fact that Locke did not say as much about intermediate groups as Conyers would like, how does it follow that he wished to eviscerate them? Locke constructed his political theory around individuals and their rights, true enough; but this is perfectly consistent with thinking associations between the state and individuals supremely important. Locke wrote a good deal about education, a fact that should suggest he did not neglect the family.

Conyers rightly stresses the value of associations; but he does nothing to show that Locke had anything to do with their decline.

At this point I can imagine Professor Conyers complaining, "You have misunderstood me completely! I do not contend that Locke consciously aimed to promote absolutism. My thesis is rather that his bipolar political philosophy led to an increase in state power. Haven't you heard of unintended consequences?" (I do not, in fact, think he would say this, since I think he inclines to the conscious-aim view; but as always, I try to make the best case I can for my authors.)

This reply falls before the counterargument already considered. Conyers can show to his entire satisfaction that Locke viewed churches, from the standpoint of his political theory, as contracts between individuals. It does not follow that the effects of this theory reduced their importance. Conyers, following Tocqueville, de Jouvenel, and Nisbet, rightly stresses the value of associations; but he does nothing to show that Locke, whether by intent or otherwise, had anything to do with their decline.

Conyers's book deals with other thinkers than Locke; but whether Pierre Bayle and John Stuart Mill lend better support to his argument I shall leave to readers to decide for themselves. I do not think that they do, but I have thought it more useful to consider one writer at length than a number in less detail. Conyers has hold of an important truth. There is, just as he says, a quasi-Hobbesian position that promotes religious tolerance in order to aggrandize the state. Of that Walter Berns is proof. But he does not show that any of the major theorists he discusses adopts this view. His book, though, does contain much that is excellent, such as the discussion of Mill and Calvinism (p. 161). One can even forgive him for thinking Richelieu a minister of Louis XIV (p. 58). ✦

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Sowell at His Best

Basic Economics: A Citizen's Guide to the Economy

Thomas Sowell
Basic Books, 2000
xi + 366 pgs.

I am jealous of Thomas Sowell. He has a genius for the striking fact and the apt analogy. These enable him to present his points in a way that readers will not soon forget. He aims in *Basic Economics* to present elementary economic principles that he thinks most people ignore at their cost. He manages to achieve his goal without a single diagram and with few technical terms.

But it is out of character for me to bring unalloyed good news. He adopts without adequate argument an "efficiency" standard to judge the economy, and this leads him to some questionable remarks. Also, a problem that has plagued him in an earlier book here makes a brief appearance: he makes a radically mistaken statement about socialism.

One of his best examples, though, occurs in a discussion of that system. Readers of *The Mises Review* will no doubt be familiar with the socialist calculation argument. Our author offers a good discussion of it, stressing, as one might expect from an authority on Hayek, the knowledge aspects of the argument. So far, so good, but similar treatments can be found in many other works. But Sowell, characteristically, finds an unusual detail.

He has discovered a passage from none other than Friedrich Engels that acknowledges the force of a version of the calculation argument: "Engels pointed out that price fluctuations have 'forcibly brought home to the commodity producers what things and what quantity of them society requires or does not require.' Without such a mechanism, he demanded to know 'what guarantee we have that [the] necessary quantity and not more of each product will be produced, . . . that we shall not lack trousers to cover our nakedness while trouser buttons flood us in millions.' Marx and Engels apparently understood economics much better than their latter-day followers" (p. 15).

Sowell's appreciation for the price system is at least as great as Engels's, and he insightfully counters a common objection to it. Opponents of the free market will sometimes acknowledge that capitalism allocates resources to

I am jealous of Thomas Sowell. He has a genius for the striking fact and the apt analogy.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Our author sets forward a principle that is obviously true but frequently neglected.

their most efficient use. But what happens to those who lose out through efficient transfers of resources? Suppose that someone loses his job in an automobile plant because a competing Japanese firm forces his company out of business. No doubt, an economist could explain to the newly unemployed worker that the tariff that would have enabled him to retain his job is inefficient. But why should the worker care about that? And, if he does not, why should the rest of us invariably hold that efficiency considerations are overriding?

As will be apparent later, I do not think Sowell fully responds to this question, but he does make an excellent point about it. The problem of dealing with those who suffer from transfers of resources is not exclusive to capitalism. Every society confronts it, and the main alternative to reliance on the market is governmental coercion. "Scarcity implies that resources must be taken from some places, in order to go to other places. Few individuals or businesses are going to be willing to give up what they have been doing, especially if they have been successful at it, for the greater good of society as a whole. . . . The financial pressures of the free market are just one of the ways this [transfer] can be done. Kings or commissars could simply order individuals to change from doing *A* to doing *B*. . . . What is crucial . . . is that it must be done" (p. 123).

If choice in allocating resources cannot be avoided, what ought to govern decisions about such matters? Our author sets forward a principle that is obviously true but frequently neglected: We should not ignore the fact that we are choosing between alternatives.

At first glance, saying this appears silly: Who could possibly doubt it? But a common mode of argument ignores the principle. Often, social reformers think that to point out a need suffices to show that something must be done about it. But this is precisely to ignore the fact that all expenditures to meet a need involve a choice in the use of resources. "So long as we respond gullibly to political rhetoric about unmet needs, we will arbitrarily choose to shift resources to whatever the featured unmet need of the day happens to be and away from other things. Then, when another politician . . . discovers that robbing Peter to pay Paul has left Paul worse off . . . we will start shifting resources in another direction" (p. 310).

Though Sowell's claim is of vital importance, he does not always defend it with conceptual precision. To provide people with the food and water they require to survive involves a choice in the use of scarce resources;

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

but to note that "beyond some point . . . both [food and water] become unnecessary and dangerous" (p. 310) does not support this contention. The question at issue involves the necessary quantity of these goods. Further, the fact that all use of resources involves choice does not show that the "very word 'needs' arbitrarily puts some desires on a higher plane than others" (p. 310). One can with perfect consistency delimit a class of needs and claim that these outrank desires, while acknowledging that any use of a resource involves choice.

I come to praise Sowell, not to bury him—at least at this point in the review.

But I come to praise Sowell, not to bury him—at least at this point in the review. Many have pointed out that the market can allocate resources even during emergencies, but Sowell finds a brilliant illustration: "When the *San Francisco Chronicle* resumed publication a month after the [1906] earthquake, its first issue contained 64 advertisements of apartments or homes for rent, compared to only 5 ads for people seeking apartments to live in . . . neither the newspapers nor any documents of that time mention any housing shortage" (p. 31).

Supporters of a Rothbardian view of fractional reserve banking will take great delight in another historical point our author raises: "Under this system of fractional reserve banking, anything that could set off a run on the banks could cause these banks to collapse. . . . This is what happened during the Great Depression of the 1930s, when literally hundreds of banks collapsed in one year and the total monetary supply of the country contracted by one-third" (p. 234).

But, defenders of fractional reserves will say, doesn't the Federal Reserve System make such panics impossible? Sowell displays in response a healthy skepticism: "The Federal Reserve System was established in 1914 as a result of fears of such economic consequences as deflation and bank failures. Yet the worst deflation and the worst bank failures in the country's history occurred after the Federal Reserve was established" (p. 235).

One more illustration of Sowell's genius for the telling detail must here suffice. A few economists, denying the elementary principles of their science, claim that empirical evidence falsifies the theory that minimum wage laws produce unemployment. Sowell quickly sees to the heart of the matter: "[S]urveys of employers before and after a minimum wage increase can survey only those businesses which survive in both periods. Given the high rates of business failures in many fields, the results for the survivors may be completely different from the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

results for the industry as a whole. . . . George Stigler once said about such surveys of survivors, using such methods you can prove that no soldier was killed in World War II" (pp. 154–55).

Unfortunately, Sowell is not always in top form. When he compares the relative efficiency of socialism and capitalism, he wrongly maintains that socialism trades eliminating profit for efficiency in allocating resources. (From the context, he means by "profit" the excess of returns over costs.) He writes: "[W]hile capitalism has a visible cost—profit—that does not exist under socialism, socialism has an invisible cost—inefficiency—that gets weeded out by losses and bankruptcy under capitalism" (p. 75).

But socialism does not eliminate profit; if all goods sold at cost, no funds would exist for future investment. Of course, a socialist system usually does not let the managers of its firms keep the excess of returns over costs, but this simply transfers profit to the planning authorities.

Sowell's devotion to economic efficiency, however admirable, is a shade too uncritical. In his discussion of monopoly, he takes for granted that it is desirable for an economy to maximize total wealth: "From the standpoint of the economy as a whole . . . consumers of the monopolist's product are foregoing the use of resources which would have a higher value to them than in alternative uses. That is the inefficiency which causes the economy as a whole to have less wealth under monopoly than it would have under free competition" (p. 92). In similar fashion, he allows, on grounds of promoting efficiency, governmental intervention in the economy to cope with external costs and benefits.

Sowell's devotion to economic efficiency, however admirable, is a shade too uncritical.

Sowell offers no defense of wealth maximization as a criterion for policy. True enough, to show that an economic policy leads to chaos conclusively refutes it. It would be perverse to respond to the calculation argument, "All right, socialism leads to economic disaster; so what? I'm still a socialist." But it does not follow from the fact that efficiency must be given some weight that it has supreme importance. What if people wish to put up with certain efficiencies? Sowell has failed to show that they should not. (His excellent point that all societies face problems of resource allocation does not gainsay this.)[1] ✦

[1]The context makes clear that Sowell does adopt efficiency as a criterion. He is not just making the purely factual claim that monopolies and external costs generate inefficiencies.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The
MISES REVIEW

LUDWIG VON MISES INSTITUTE
518 West Magnolia Avenue
Auburn, Alabama 36832-4528

Non-Profit Org.
U. S. POSTAGE
PAID
Ludwig von Mises Institute

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED